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Dear Members of the General Assembly:

The Missouri Division of Finance's recent report on payday lending confirms what we have long known: this industry must be reformed. Missourians continue to fall into the debt trap set and sprung by payday lenders who promise a quick fix to a financial pinch but instead inflict greater harm through exorbitant fees and onerous terms. You have the opportunity to strengthen our payday lending laws and reverse that course, and I urge you to act.

The Division's report, a copy of which I enclose, contains alarming observations which demonstrate that this industry is, by every measure, propagating in Missouri, to the detriment of Missourians. For the period covered by the Division's report (October, 2005 to September, 2006), Missourians borrowed more than three quarters of a billion dollars from payday lenders – at an average APR of 422%.

A nationwide study released in November of last year found that 90 percent of payday lenders' profits come from interest and fees paid by borrowers who cannot pay the lender back on time. These costs amounted to $4.2 billion nationwide in 2005. Missourians were the second largest contributor to that figure, paying $317 million in such costs and trailing only the state of California. Compounding these problems are the recent changes in federal bankruptcy laws that have made it more difficult for consumers to seek relief when they most need it.

The statistics on payday lending paint a disturbing past and foretell a dangerous future for many Missouri families who reluctantly turn to these lenders in a time of need. This trend must be reversed.

Senator Rita Heard Days (SB 96) has again introduced legislation aimed at curbing the most oppressive payday lending practices. She is joined by Representative James Whorton (HB 423) and Representative John Burnett (HB 237) in the House. These proposals would cap rates and fees on these loans at roughly 36 percent APR, and would eliminate the practice of renewing these loans – a practice that is forbidden in all eight states adjoining Missouri. These proposals would also provide important tools to law enforcement to punish those who violate – and to deter those who would consider violating – our payday lending laws. All of these changes are necessary to prevent payday lenders from continuing to take advantage of Missourians. But there are additional protections that you can and should put in place.

Congress recently passed sweeping protections against these predatory lending practices for members of our military, and there is no reason why the same protections cannot be extended by the General Assembly to all Missourians. The evidence shows that payday lending stores have inundated our Nation's military posts, and that our soldiers have been repeatedly victimized by the oppressive terms of these loans. But the evidence also shows that these stores are similarly multiplying in our neighborhoods, victimizing our civilian families in the same way.

Like your colleagues' proposals, the new federal law enacts a cap of 36 percent APR, but it also clarifies that this rate is inclusive of all fees and costs, preventing lenders from extracting their pound of flesh through hidden or deceptively labeled charges. The new federal law also contains important additional protections for military members such as allowing prepayment and partial payment of these loans, and prohibiting lenders from tricking borrowers into signing away important legal rights. These protections should be granted to all consumers.

Payday lenders must not be allowed to continue to profit by exploiting hard working Missourians who seek a one-time solution to a small problem and end up in a cycle of debt. I urge you to support this important legislation, and to add to it the protections extended by Congress to members of our military.

Sincerely,

JEREMIAH W. (JAY) NIXON
Attorney General

Enc.: Division of Finance Report